

Central Intelligence Agency



Washington, D. C. 20505

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DIRECTORATE OF INTELLIGENCE

3 SEP 1985

MEMORANDUM FOR: Rollinde Prager
Director of Commodity Policy
Office of the United States Trade Representative

FROM : [redacted]
Acting Chief, Economics Division
Office of Global Issues

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SUBJECT : Impact of Possible US Withdrawal from International
Coffee Agreement--Implications for Latin American
Coffee Export Earnings [redacted]

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The attached analysis of the Impact of Possible US Withdrawal from the
International Coffee Agreement--Implications for Latin American Coffee Export
Earnings, has been prepared in response to your request. I hope it proves to
be helpful. If we can be of further assistance or you have follow-up
questions, please call [redacted]

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[redacted]

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[redacted]

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Attachment:

Impact of Possible US Withdrawal from International Coffee Agreement--
Implications for Latin American Coffee Export Earnings [redacted]

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GI M 85-10232, September 1985, [redacted]

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ON FILE Department of Agriculture RELEASE
INSTRUCTIONS APPLY

GI M 85-10232

[redacted]

[redacted]

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SUBJECT: Impact of Possible US Withdrawal from International
Coffee Agreement--Implications for Latin American
Coffee Export Earnings [REDACTED]

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OGI/ECD/CM: [REDACTED] (30 August 1985)

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DIRECTORATE OF INTELLIGENCE

3 September 1985

Impact of Possible US Withdrawal from International
Coffee Agreement--Implications for Latin American
Coffee Export Earnings

Summary

If the US withdraws from the International Coffee Agreement, coffee prices are likely to fall, probably to around the 90 cent-a-pound level. At this price, we estimate that Latin American coffee export earnings could fall by around 25 percent to approximately \$5.3 billion. This decline in earnings would hit El Salvador hardest followed by Colombia, Nicaragua, Haiti, and Guatemala--dampening their ability to service their debt and import capital goods for economic development purposes. [redacted]

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This memorandum was prepared by [redacted] Commodity
Markets Branch, Office of Global Issues. The information contained herein is
updated to 3 September 1985. Comments may be directed to [redacted] Acting
Chief, Economics Division, [redacted]

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Impact of Possible US Withdrawal from International
Coffee Agreement--Implications for Latin American
Coffee Export Earnings

Assumptions

If the US withdraws from the International Coffee Agreement (ICA), coffee prices are likely to fall to a level somewhere between the world quota market price to consumer members--currently \$1.20 per pound--and the price being paid by non-members--currently 60-80 cents per pound. Under such a situation, our best guess is that US importers would be offered coffee at a market equilibrium price of around 90 cents per pound. Such a large price drop would occur, in our judgment, because of the importance of the United States as a coffee importer, accounting for almost one-third of ICA imports. [REDACTED]

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With the exact level being quite uncertain, we examined 1985/86 earnings under three average price scenarios:

\$1.20 per pound (roughly the current price)
\$1.05 per pound (a high post-ICA price)
\$0.90 per pound (a low post-ICA price)

The volume of exports for the individual Latin American producers was assumed to match levels currently forecast by USDA/FAS and include estimates of exports to members and non-members alike. Given the well-established price inelasticity for coffee, we assumed that there would be no short-run price-induced changes in the volume of exports. [REDACTED]

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Since the unit price received by individual LDCs for coffee exports varies depending on the quality of the coffee produced, we had to determine the price individual LDCs would receive under each price scenario. To do

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this, we calculated unit export prices for coffee exports to the US by each Latin American coffee producer over the period 1982-1984. The amount each LDC received above or below the group's average was then tabulated and the price they received in each scenario adjusted by this difference. For example, over this period El Salvador received 3 cents more per pound for coffee exported to the US than the average Latin American exporter. Under the \$1.20 per pound price scenario, therefore, El Salvador is assumed to receive \$1.23 per pound for its coffee.

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Implications

If prices remain at their current level of \$1.20 per pound--the current floor price of the ICA--coffee export earnings for the region for 1985/86 would reach approximately \$7 billion. If, in contrast, prices fall to the 90 cent-per-pound level--which some experts predict--earnings would fall to around \$5.3 billion.¹ This 25 percent decline in foreign exchange earnings would hit hardest those economies most dependent on coffee, especially the seven Latin American nations which depend on coffee for more than 20 percent of their annual export earnings (Tables 1 and 2 and Figures 1-3). The situation would be compounded by the fact that many of these countries are also heavily dependent on sugar exports and are facing extremely low world sugar prices--averaging under 4 cents a pound in July 1985 compared with 28 cents a pound in July 1980--and continued contraction in the volume of exports for premium-priced (around 20 cents a pound) sugar to the US under its quota system.

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1. Implicit in this analysis is our belief that the ICA would either collapse without the US--the world's largest consumer accounting for almost one-third of global import demand--or that a smaller organization would be less able to defend the current price using the export quota instrument.

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The fall in export earnings from coffee would reduce the ability of these countries to service their substantial debt and to import capital goods for development purposes (Table 3 and Figures 4-6). El Salvador, the region's most coffee-dependent country, would be the most adversely affected. With coffee representing around two-thirds of El Salvador's total export earnings, a drop in coffee prices to 90 cents a pound would translate into an earnings loss of more than \$100 million--almost equal to the country's debt-service obligation. [REDACTED]

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Colombia's coffee growers--caught in a cost-price squeeze with rising production costs for fertilizer and labor and declining coffee prices--could find production of illicit crops more attractive. Earlier research by this Office has revealed that depressed economic conditions, among other key factors, have contributed to the recent expansion by the drug industry in a number of the source countries in Latin America, particularly Mexico, Colombia, Peru, Bolivia, Belize, Costa Rica and Jamaica.² [REDACTED]

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[REDACTED]

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[REDACTED]

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Table 1

**Latin America: Value of Coffee Exports
in Relation to Total Exports and Debt Service
for Selected Coffee Exporters 1980-1982**

<u>Big Three Exporters</u>	<u>Value of Coffee¹ Exports (Mil \$)</u>	<u>Coffee Share of Country's Total Exports Percent</u>	<u>Coffee's Rank Among Leading Exports¹</u>	<u>Debt Service¹ (Mil \$)</u>	<u>Coffee Exports as Share of Debt Service Percent</u>
Brazil*	2,210	10.5	2nd	17,801	0.124
Colombia*	1,814	54.4	1st	1,358	1.336
Mexico	384	2.0	3rd	15,206	0.253
<u>Central America</u>					
Costa Rica*	242	23.5	1st	299	0.809
El Salvador*	442	60.0	1st	112	3.946
Guatemala*	340	26.0	1st	170	2.000
Honduras*	177	23.6	2nd	248	0.714
Nicaragua*	147	34.8	1st	251	0.586
<u>Caribbean & Other So. America</u>					
Dominican Rep.*	80	8.2	3rd	371	0.216
Haiti*	49	26.5	1st	34	1.441
Ecuador*	141	5.9	3rd	1,194	0.118
Paraguay	24	7.3	1st	182	0.132
Peru*	120	3.4	9th	2,389	0.050

1. 1980-1982 average.

* Countries where sugar also is a leading export commodity.

Table 2

Latin America: Value of Coffee Exports by Country
1975 - 1982
(million US Dollars)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
<u>Big 3 Exporters</u>								
Brazil								
Coffee Exports	934	2,398	2,613	2,294	2,326	2,771	1,727	2,133
Total Exports	8,670	10,128	12,050	12,527	15,244	20,180	22,743	20,190
Coffee % of Total	10.8	23.7	21.7	18.3	15.3	13.7	7.6	10.6
Colombia								
Coffee Exports	744	1,023	1,561	2,137	2,204	2,417	1,446	1,578
Total Exports	1,465	1,745	2,443	3,003	3,300	3,945	2,956	3,095
Coffee % of Total	50.8	58.8	63.9	70.3	66.8	61.3	49.4	57.0
Mexico								
Coffee Exports	190	413	512	422	606	463	339	350
Total Exports	2,992	3,361	4,286	5,899	8,818	15,301	20,041	21,006
Coffee % of Total	6.3	12.3	11.9	7.2	6.9	3.0	1.7	1.7
<u>Central America</u>								
Costa Rica								
Coffee Exports	97	159	342	310	318	247	239	239
Total Exports	493	593	828	865	934	1,002	1,209	872
Coffee % of Total	19.7	26.9	41.2	35.9	34.1	24.6	19.7	27.4
El Salvador								
Coffee Exports	230	404	790	469	635	620	322	384
Total Exports	513	721	973	631	1,032	720	792	696
Coffee % of Total	44.7	56.0	81.2	74.4	61.5	86.1	40.7	55.1
Guatemala								
Coffee Exports	159	289	541	461	483	332	324	364
Total Exports	641	760	1,160	1,089	1,241	1,520	1,226	1,173
Coffee % of Total	24.8	38.1	46.1	42.4	38.9	21.8	26.4	31.0
Honduras								
Coffee Exports	57	101	169	212	197	204	173	153
Total Exports	303	392	519	613	734	829	760	660
Coffee % of Total	18.8	25.7	32.6	34.5	26.8	24.6	22.7	23.1

Table 2 (Cont'd)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Nicaragua								
Coffee Exports	55	110	194	196	157	178	134	130
Total Exports	375	542	639	646	567	448	420	400
Coffee % of Total	14.8	20.4	30.4	30.3	27.7	39.7	32.0	32.4
Panama								
Coffee Exports	2	3	4	9	10	10	11	13
Total Exports	280	238	243	247	295	351	315	309
Coffee % of Total	0.8	1.2	1.8	3.5	3.3	2.8	3.7	4.3
Caribbean								
Dominican Rep.								
Coffee Exports	44	101	185	98	158	73	75	93
Total Exports	894	716	781	676	869	962	1,188	768
Coffee % of Total	4.9	14.1	23.7	14.5	18.1	7.5	6.3	12.1
Haiti								
Coffee Exports	23	51	70	49	74	60	31	57
Total Exports	81	125	143	159	148	226	160	170
Coffee % of Total	27.9	40.6	49.1	31.0	50.1	26.3	19.6	33.4
Jamaica								
Coffee Exports	4	5	5	3	4	5	5	8
Total Exports	759	633	768	788	817	965	974	820
Coffee % of Total	0.5	0.7	0.7	0.3	0.5	0.5	0.5	0.9
Trinidad/ Tobago								
Coffee Exports	4	4	6	7	7	7	5	4
Total Exports	1,754	2,189	2,180	2,040	2,610	4,077	3,725	3,072
Coffee % of Total	0.2	0.2	0.3	0.3	0.3	0.2	0.1	0.1
Other South America								
Bolivia								
Coffee Exports	7	14	20	17	25	14	14	18
Total Exports	445	566	634	635	754	927	893	832
Coffee % of Total	1.6	2.5	3.1	2.7	3.4	1.5	1.6	2.1
Ecuador								
Coffee Exports	67	207	180	263	273	139	122	163
Total Exports	897	1,258	1,436	1,494	2,013	2,481	2,542	2,139
Coffee % of Total	7.5	16.5	12.5	17.6	13.6	5.6	4.8	7.6

Table 2 (Cont'd)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Paraguay								
Coffee Exports	9	6	9	15	6	17	28	26
Total Exports	177	181	279	257	305	310	296	378
Coffee % of Total	4.9	3.3	3.3	5.9	2.1	5.4	9.3	6.9
Peru								
Coffee Exports	53	101	198	168	245	141	106	113
Total Exports	1,291	1,360	1,726	1,941	3,491	3,898	3,255	3,300
Coffee % of Total	4.1	7.4	11.5	8.7	7.0	3.6	3.3	3.4
Venezuela								
Coffee Exports	4	4	6	7	7	6	5	4
Total Exports	1,754	2,189	2,180	2,040	2,610	4,077	3,725	3,072
Coffee % of Total	0.2	0.4	0.5	0.5	0.2	--	--	--
Total								
Latin America								
Coffee Exports	2,683	5,393	7,405	7,137	7,735	7,704	5,106	5,830

Sources: UNCTAD Handbook of International Trade and Development Statistics, 1983, International Financial Statistics, International Coffee Organization

**CHART 1: HISTORICAL IMPORTANCE OF COFFEE EXPORTS:
BRAZIL, COLOMBIA AND MEXICO
(1980-1982 AVERAGES)**

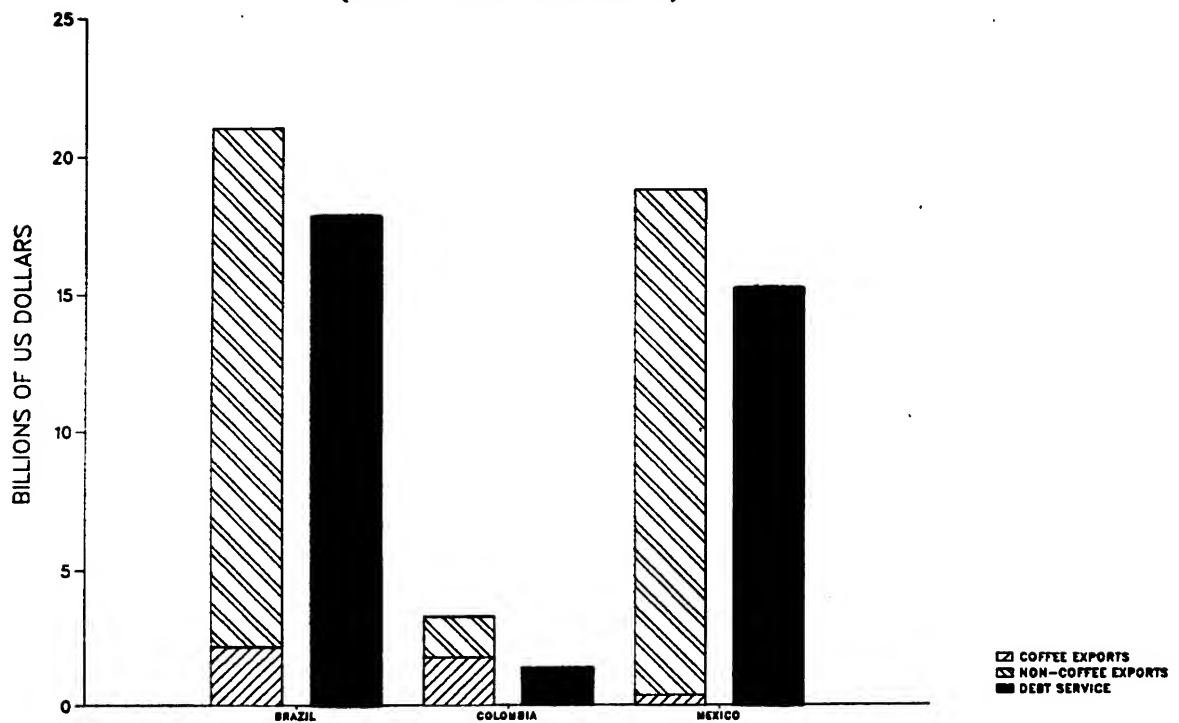
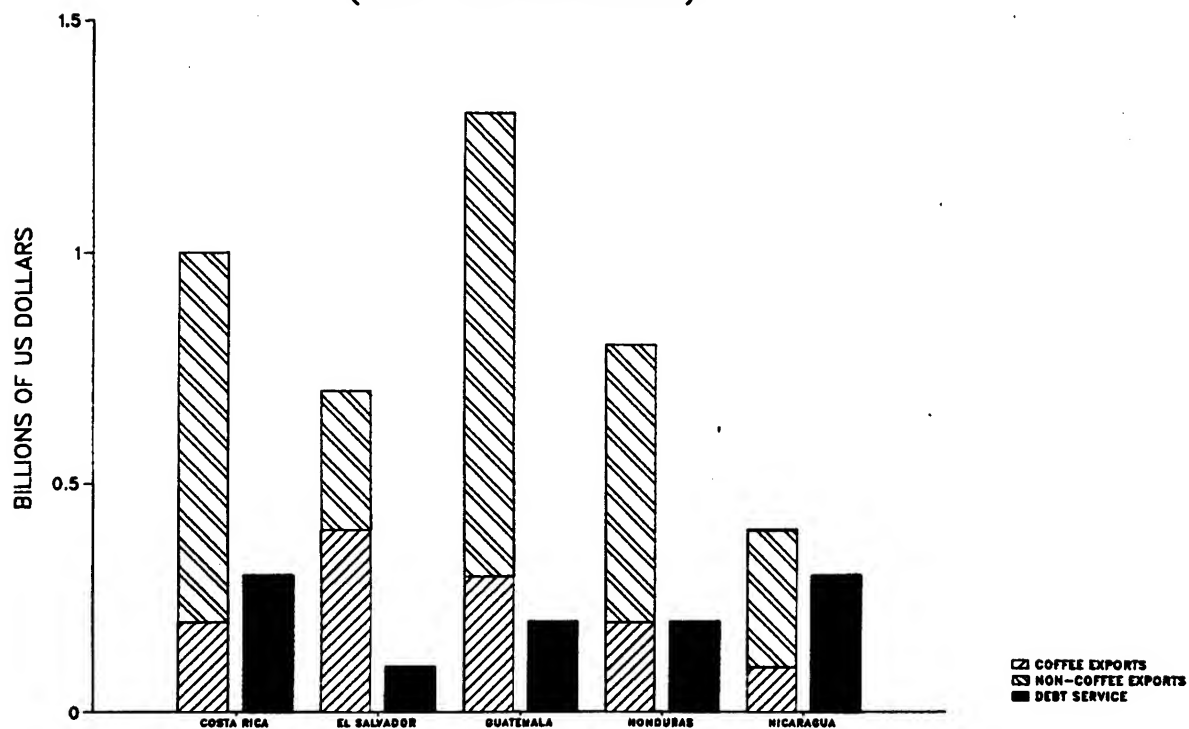


CHART 2: HISTORICAL IMPORTANCE OF COFFEE EXPORTS:
CENTRAL AMERICA
(1980-1982 AVERAGES)



**CHART 3: HISTORICAL IMPORTANCE OF COFFEE EXPORTS:
CARIBBEAN AND OTHER SOUTH AMERICA
(1980-1982 AVERAGES)**

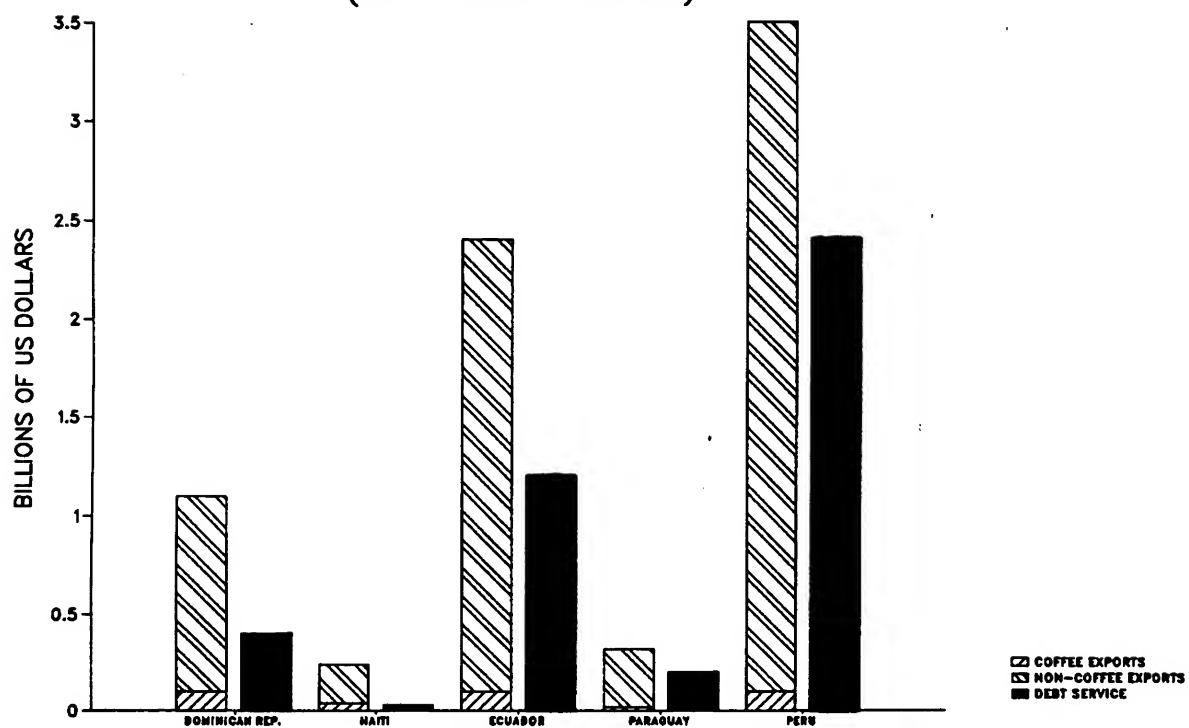


Table 3

**Latin America: Coffee Export Earning Scenarios Compared
With Debt Service For Selected Exporting Countries**

<u>Big Three Exporters</u>	<u>Export Volume¹ (1,000 60 kg bag)</u>	<u>Price Adjust- ment Factor (¢ per lb)</u>	<u>Price and Earnings at \$1.20 per pound Adj. Earnings (¢ per lb) (Mil \$)</u>		<u>Price and Earnings at \$1.05 per pound Adj. Price Earnings (¢ per lb) (Mil \$)</u>		<u>Price and Earnings at \$0.90 per pound Adj. Price Earnings (¢ per lb) (Mil \$)</u>		<u>1984 Debt Service (Mil \$)</u>
Brazil	19,000	-0.01	1.19	3,001	1.04	2,624	0.89	2,247	15,561
Colombia	10,000	+0.05	1.25	1,651	1.10	1,453	0.95	1,254	1,855
Mexico	2,650	+0.07	1.27	444	1.12	391	0.97	339	11,741
<u>Central America²</u>									
Costa Rica	1,802	+0.01	1.21	289	1.06	253	0.91	217	396
El Salvador	2,800	+0.03	1.23	455	1.08	399	0.93	344	130
Guatemala	2,100	+0.00	1.20	333	1.05	292	0.90	250	269
Honduras	1,300	-0.06	1.14	197	0.99	171	0.84	145	243
Nicaragua	725	+0.03	1.23	118	1.08	104	0.93	89	215
<u>Caribbean & Other So. America²</u>									
Dominican Rep.	530	-0.03	1.17	82	1.02	71	0.87	61	410
Haiti	420	-0.11	1.09	60	0.94	52	0.79	44	43
Ecuador	1,500	-0.12	1.08	214	0.93	184	0.78	155	798
Paraguay	260	-0.13	1.07	37	0.92	32	0.77	27	208
Peru	1,000	-0.07	1.13	150	0.98	130	0.83	110	1,592
<u>Total</u>	<u>44,087</u>			<u>7,031</u>		<u>6,156</u>		<u>5,282</u>	<u>33,461</u>

¹ Export volume data based on latest USDA estimates for 1985/86 (Oct/Sept) coffee year.

² Excludes minor Latin American coffee exporters Panama, Jamaica, Trinidad to Tobago, Bolivia and Venezuela

CHART 4: COFFEE EARNINGS SCENARIO FOR 1985/86
WITH 1984 DEBT SERVICE
BRAZIL, COLOMBIA AND MEXICO

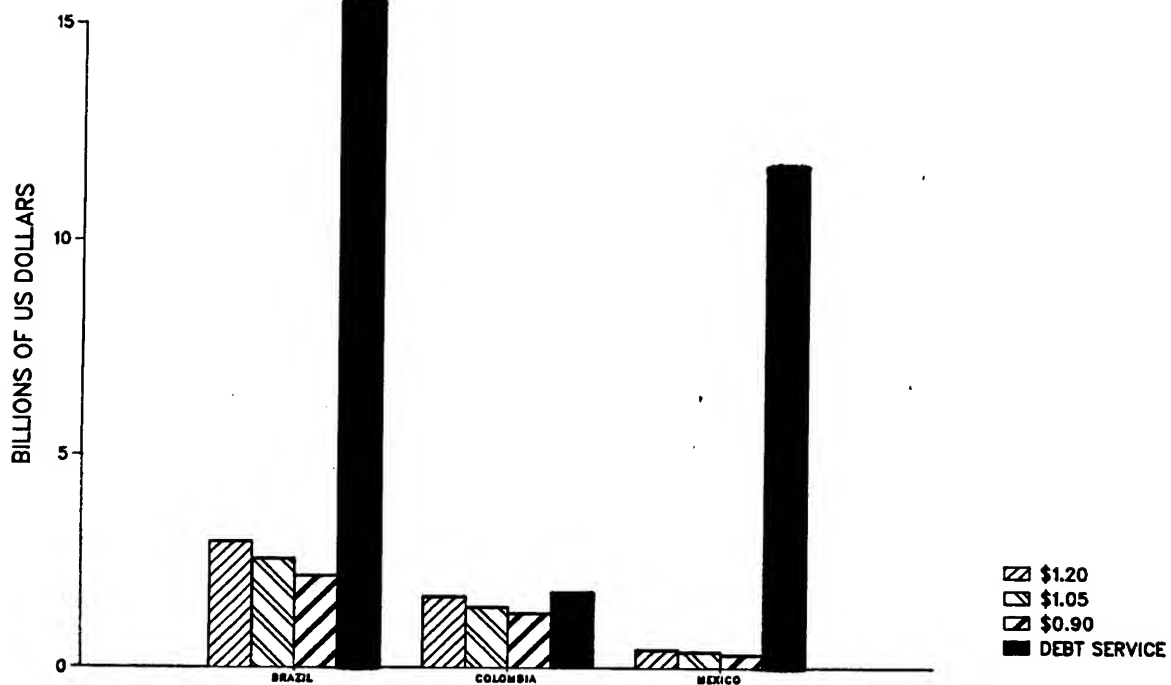


CHART 5: COFFEE EARNINGS SCENARIO FOR 1985/86
WITH 1984 DEBT SERVICE
CENTRAL AMERICA

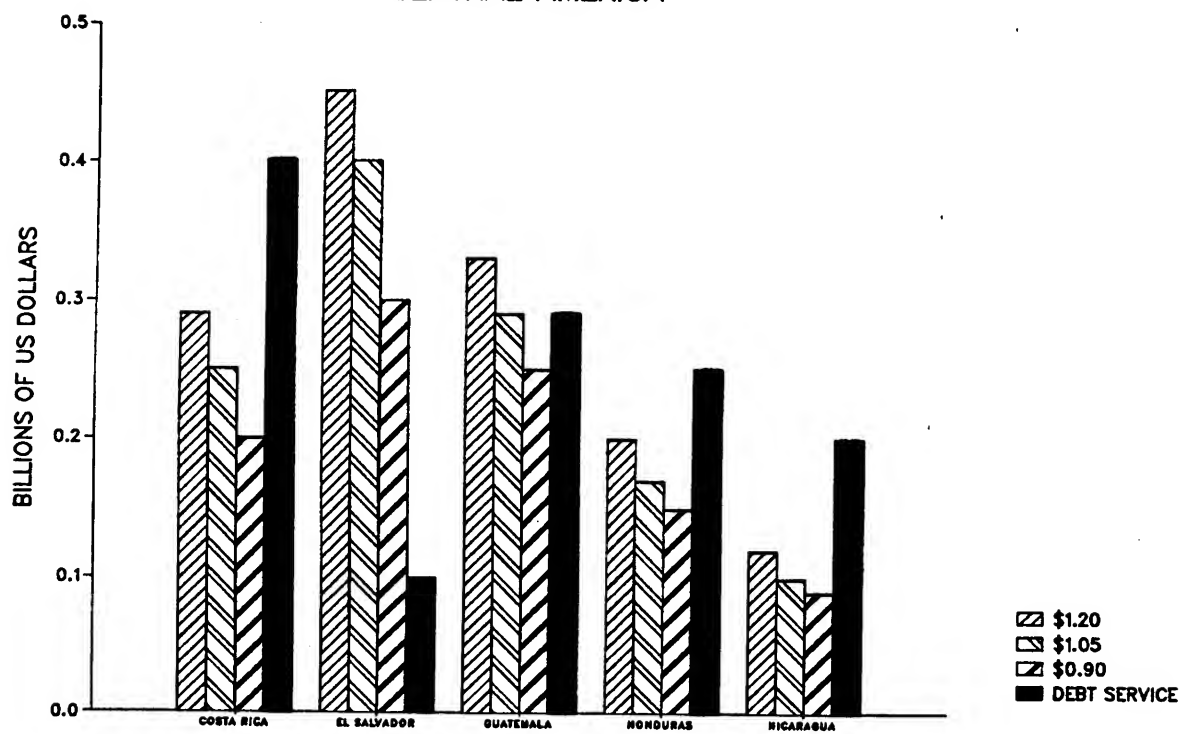


CHART 6: COFFEE EARNINGS SCENARIO FOR 1985/86
WITH 1984 DEBT SERVICE
CARIBBEAN AND OTHER SOUTH AMERICA

